



# THE UNIVERSITY *of* EDINBURGH

## Edinburgh Research Explorer

### The rise of the balanced scorecard! – Relevance regained?

**Citation for published version:**

Norreklit, H., Norreklit, L., Mitchell, F. & Bjornenak, T. 2012, 'The rise of the balanced scorecard! – Relevance regained?', *Proceedings of Pragmatic Constructivism*, vol. 2, no. 1, pp. 16-29.  
<<http://www.propracon.com/article/view/16673>>

**Link:**

[Link to publication record in Edinburgh Research Explorer](#)

**Document Version:**

Publisher's PDF, also known as Version of record

**Published In:**

Proceedings of Pragmatic Constructivism

**Publisher Rights Statement:**

© Norreklit, H., Norreklit, L., Mitchell, F., & Bjornenak, T. (2012). The rise of the balanced scorecard! – Relevance regained?. *Proceedings of Pragmatic Constructivism*, 2(1).

**General rights**

Copyright for the publications made accessible via the Edinburgh Research Explorer is retained by the author(s) and / or other copyright owners and it is a condition of accessing these publications that users recognise and abide by the legal requirements associated with these rights.

**Take down policy**

The University of Edinburgh has made every reasonable effort to ensure that Edinburgh Research Explorer content complies with UK legislation. If you believe that the public display of this file breaches copyright please contact [openaccess@ed.ac.uk](mailto:openaccess@ed.ac.uk) providing details, and we will remove access to the work immediately and investigate your claim.





# PROCEEDINGS OF PRAGMATIC CONSTRUCTIVISM

journal homepage: [www.ProPraCon.com](http://www.ProPraCon.com)

## The rise of the balanced scorecard! – Relevance regained?

Hanne Nørreklit

*Professor of Management Control*

*Aarhus University; School of Business and Social Sciences; Department of Economics and Business  
Fuglesangs Allé 4, 8210 Aarhus V, Denmark; [hann@asb.dk](mailto:hann@asb.dk)*

Lennart Nørreklit

*Professor of Philosophy*

*Aalborg University*

*Langagervej 8, 9220 Aalborg Ø, Denmark; [lennartnorreklit@gmail.com](mailto:lennartnorreklit@gmail.com)*

Falconer Mitchell

*Professor of Management Accounting*

*University of Edinburgh Business School*

*29 Buccleuch Place, Edinburgh, Lothian EH8 9JS, United Kingdom; [falconer.mitchell@ed.ac.uk](mailto:falconer.mitchell@ed.ac.uk)*

Trond Bjørnenak

*Professor of Management Accounting*

*NHH Norwegian School of Economics*

*Helleveien 30, 5045 Bergen, Norway; [trond.bjornenak@nhh.no](mailto:trond.bjornenak@nhh.no)*

### Abstract

This paper investigates whether the balanced score card has contributed to regaining practice relevance of management accounting research. The paper subscribes to Kaplan's claim that accounting research should increase its relevance by directing more attention to accounting in contemporary business practice and strive to develop improvements for this practice. We also believe that Kaplan is fundamentally right when he states that even though efforts have been made to overcome the problem, the issue remains important for management accounting research. However, the paper is wondering why was the relevance gap not somehow covered by the widespread interest in and use of BSC?

The increased demand for research that is relevant to managerial practice can be seen as an example of the traditional change of a profession from being a craft to becoming a scientific practice; a transition that has characterized all professions in modern society. Accordingly, the problem of relevance is not considered to be a limited technical problem, but it is seen as a general problem of incompatibility between the speech genres of managerial practice and scientific research. Therefore, we address the speech genre in use in the major works on BSC.

Our analysis uncovers that the BSC is defined in a way that can provide management with some kind of generally overarching model, but the model lacks realistic scientific characteristics and favors some strong characteristics of myth. The extreme focus on cause-and-effect statements in BSC that makes everybody involved draw arrows in all directions seems especially arbitrary or mythical. The mythical nature of the BSC speech genre, on the one hand, may be handy to use in practice because it generates hypothetical managerial imperatives, but on the other hand it is incompatible with research and thereby it actually increases the relevance gap. Our analysis consequently points towards methodological issues that are to be solved especially with respect to the usage of cause-and-effect statements if research is to become more relevant and replace the use of somewhat unrealistic myth. To overcome this problem and regain research relevance the article recommends a more scholarly speech genre that pays more attention to various usages of inferential statements and specifically a pragmatic constructivist perspective for analyzing construct causalities.

**Keywords:** Balanced Scorecard, construct causality, myth, scholarly speech genre.

---

## **The Rise of the Balanced Scorecard! Relevance regained?**

Hanne Nørreklit, Norwegian School of Economics,  
Norway

Lennart Nørreklit, Aalborg University, Denmark

Falconer Mitchell, University of Edinburgh, UK

Trond Bjørnenak, Norwegian School of Economics,  
Norway

---

### **Introduction**

- Relevance lost (1987)
  - Management accounting research simplified, stylized and detached
- Reproduced (2011)
  - Researcher should advance practice – as in medicine
  - Test conceptual innovations by teaching them to executives
- BSC
  - A popular conceptual innovation taught to executives
  - Increased practice relevance?
- What should be the criteria of practice relevance for management accounting research?
  - What made advances in medicine?
    - Change from a mythical to a methodological approach

---

## Research aim

- Explore the methodological basis of the BSC with a view to discussing the practice relevance of management accounting research
- Speech genre analysis
- A speech genre
  - is defined through a particular type of language use which is the driver of thoughts and actions (Cassirer)
  - linked to a specific life form (Wittgenstein 1953)
- The speech genre of a researcher's management accounting text reflects a methodological approach to management accounting and management accounting research

---

## Categories of speech genres

### Mythical

- Concepts
  - Developed without being associated with authentic phenomenon
  - Broad, ambiguous and emotional
- Credibility of an utterance
  - Authority
  - Dogmatic
- Life form
  - Produces images of reality that unify views and handle uncertainty

### Science

- Concepts
  - Developed in reflective reasoning with authentic phenomenon
  - Precise, distinct and objective
- Credibility of an utterance
  - Insight into the phenomenon
  - Scientific form
- Life form
  - Describing, mastering and controlling the world

---

## **Dominant accounting research**

- Precise and logical language
  - Math
- Authority
  - Rationalism
    - Assumptions – rational economic man
    - Logic - coherence
  - Empiricism
    - Factual evidence - Quantitative generalization - Statistical tests
    - Assumed relationships???
- Rejects critique
  - No rational economic man
  - Failing models
- Ideological
  - Symbolic form of religion
  - Lost relevance

---

## **Research questions**

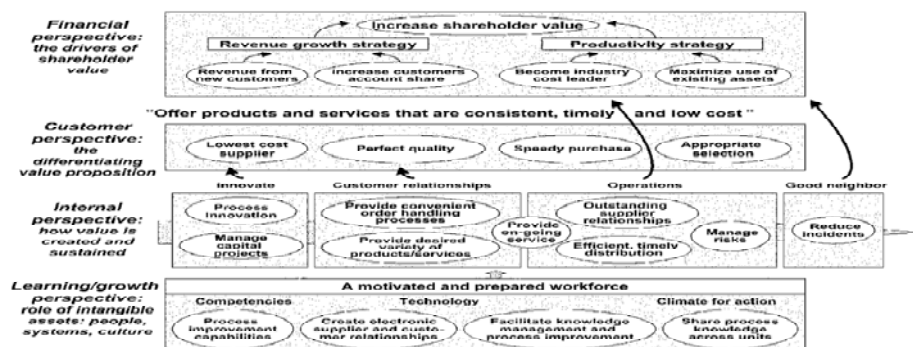
- What are the linguistic and argumentative features and hence the speech genre of the BSC texts?
- How does the speech genre of BSC reflect practice relevance?
- How could a more practice relevant scholarly speech genre be developed?

## Texts and focus

- BSC texts 1996, 2001
- Focus of analysis
  - The measurement and control model
    - The linguistic and argumentative features
  - The knowledge production of the BSC model
    - Type of credibility behind the utterance

## Measurement model

- Hypothetical imperative: *If condition X, then condition Y.*
  - If we increase employee training about products, then they will become more knowledgeable about the full range of products they can sell;
  - If employees are more knowledgeable about products, then their sales effectiveness will improve;
  - If their sales effectiveness improves, then the average margin of the products they sell will increase” (Kaplan and Norton 1996b, p 65)



---

## Measurement model

- Focus is on events and their causes
- Events
  - Focus on result measures
  - Defined in broad and ambiguous terms
- The causal relation between events
  - Postulate generic relationship between customer satisfaction and financial result
  - Ambiguous: Causality or accounting calculus

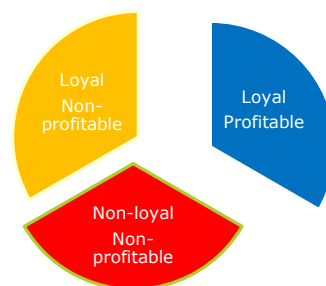
---

## Is it valid?

- High customer satisfaction → high customer loyalty → high ROCE
- Logical fallacy
  - Non-loyal customers are non-profitable

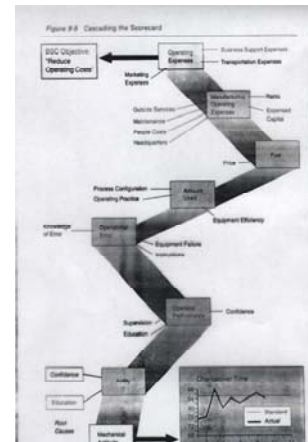
↓

  - Loyal customers are profitable
- Fallacy-reference
  - Firms with high customer satisfaction/loyalty have high returns
- Rely on simplistic intuition!
  - Financial implication?
  - When is it valid?



## Control process

- One-way flow of step-by-step process
  - The high level performance model reflected in the scorecard becomes the starting point for a decomposition process that cascades high level measures down to lower organizational levels... (Kaplan and Norton, 1996 a, p. 213)
- Step-by-step imperatives
  - *Translate the strategy to operational terms, align the organization to the strategy, make strategy everyone's everyday job and make strategy a continual process* (2001b)
- Hypothetical imperative: *If imperative step X, then condition Y.*
  - "When this process is complete, all the organizational units ..... have well-defined strategies that are articulated and measured by Balanced Scorecards and strategy maps." ( 2001b, 149)



## Holistic features

- 1996
  - The scorecard creates shared understanding. It creates a holistic model of the strategy that allows all employees to see how they can contribute to organizational success (1996b, p. 77)
- 2001
  - The CEOs and senior leadership teams of adopting organizations understood that they could not implement the new strategy by themselves. They wanted contributions-- actions and ideas--from everyone in the organization. The third principle of strategy-focused organizations requires that all employees understand the strategy and conduct their day-to-day business in ways that contribute to the success of that strategy. This is not top-down direction. This is top-down communication.
  - ....Companies communicate their strategy and scorecard holistically. Instead of cascading objectives through the chain of command, as is normally done, they communicate the complete strategy down to individual employees. Individuals and departments at lower levels are challenged to develop their own objectives in light of the broader priorities; in some cases, personal scorecards are used to set personal objectives (Kaplan and Norton, 2001b, p. 151)



---

## Control process

- Imperatives formulate results or conditions
- Focus on events and their causes
- Events
  - Requested results and postulated conditions
  - Broad and ambiguous
- Causal relationship
  - Postulated – Detached from authentic phenomenon

---

## The credibility of the utterances

- Reference to
  - Themselves
    - We show how organizations use ...; We have helped more than 200 executive teams
    - Postulate what the facts are
    - Complete knowledge about all tools
      - Logical fallacies (Modus ponendo ponens)
        - » If p then q; p q
          - » By making the cause-and-effect hypotheses among objectives and measures explicit, business can test their strategy in real time and adapt and learn.
        - » If p then q Not p Not q
          - » "Without explicit cause-and-effect linkages, no strategic learning can occur"
        - » Fallacy

---

## The credibility of the utterance

- Reference to
  - Executives and organizations
    - Successful balanced scorecard companies
  - Failures
    - Reaction to the failure of other models
    - No reaction to the failures of the good examples of the BSC
      - Fanny Mae, Nationwide Financial Services Inc., General Motors
      - Chrysler
  - Scholars
    - Who accept the framework
    - No explicit reaction to criticism
      - No reasoning but implicit ad hoc postulates
- Autocratic

---

## Example of implicit reaction to criticism

- Example of MAR criticism
  - Causal vs. logical
  - Hierarchical top-down formulation and break-down of measure variables vs. dialogical formulation of measure variables
- Change from 1996-2001
  - 1996: Cascades down
    - "...the high level performance model reflected in the scorecard becomes the starting point for a decomposition process that cascades high level measures down to lower organizational measures. (...) the Balanced Scorecard at the SBU level can be translated into a linked scorecard for lower-level departments, teams and individuals" 1996 a, p 213
  - 2001: Cascades and does not cascade
    - "Companies communicate their strategy and scorecard holistically. Instead of cascading objectives through the chain of command, as is normally done, they communicate the complete strategy down to individual employees. Individuals and departments at lower levels are challenged to develop their own objectives in light of the broader priorities; in some cases, personal scorecards are used to set personal objectives." 2001, p 151
    - The third principle of strategy – focused organizations require that all employees understand the strategy and conduct their day-to-day business in ways that contribute to the success of that strategy. This is not top-down direction. This is top-down communication. (2001p, 151)

---

## Speech genre

- Cause-event order
  - The events are caused by an extrinsic contingent form of causality
  - Normative events
    - Requested results and postulated conditions
    - Broad and ambiguous
  - The credibility of the order of causality:
    - Reference to the authority of
      - Kaplan and Norton
      - Executives
    - Ad hoc argumentation
  - Methodological roots
    - Hume; positivism and natural science
- Mythical form
  - Appeals to the community
  - This speech genre is blind to
    - Human thinking, doing and motivation
    - Financial calculus
  - Unpredictable outcome

---

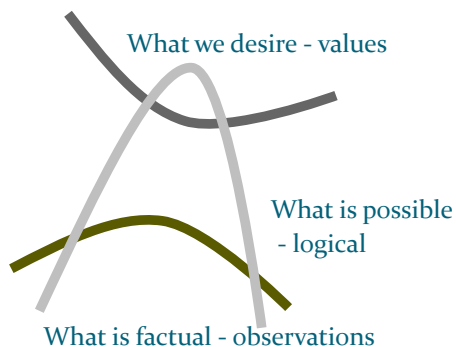
## What then?

- Logical vs. causal
  - Accounting calculus – general
- Traditional types of causality
  - General cause-and-effect
  - Natural laws about causal relations
    - based on a causal push-based sort of causality
  - Functional relations used to formulate final causes
    - pull-based purpose driven causality
- Another paradigm
  - Construct causality
  - Causal schemata

## Practice relevant paradigm



Our communication –  
the social togetherness



- Pragmatic constructivism: Research project about sound practice
- Doing business is about making things work in practice
  - Based on 'construct causality'
- Managers and employees create construct causality
- Construct causality is about integration of
  - Facts and possibility
    - Is it a factual possibility?
  - Human values and desires
    - Are managers and employees motivated?
  - The social aspects
    - Fit across activities and institutional environment
- Implications for performance management

## CASE: Standard product - Control of construct causality

- Stages in the production of 'construct causality' of a standard product project
  - From possibilities and values to facts
  - Social process
- Gates
  - Performance evaluation of construct causality
  - Pro-actively true – will it work?
    - Criteria: Financial, technical, resources, risks, customer demands
    - Conditional causal schemata for the project to succeed
  - Pragmatically true – did it work?
  - Learning – gap proactively and pragmatically true
    - Criteria developed over time
- Reflection and interaction – not mechanical

---

## Conclusion

- Popularity among management executives does not imply practice relevance
- Scholarly language
  - Scientific language is not necessarily scholarly
- The paper advocates
  - A practice ontology for accounting research
    - Construct causality
  - The development of the accounting epistemology
    - Causal schemata
    - Accounting logic
  - More advanced language

## References

- Corbett, E. P., & Connors, R. J. 1965. *Classical Rhetoric for the Modern Student*. New York, NY: Oxford University Press.
- Davis, S., & Albright, T. 2004. An investigation of the effect of Balanced Scorecard implementation on financial performance. *Management Accounting Research*, 15(2): 135-153.
- De Geuser, F., Mooraj, S., & Oyon, D. 2009. Does the Balanced Scorecard add value? Empirical evidence on its effect on performance. *European Accounting Review*, 18(1): 93-122.
- Fairclough, N. 2003. *Analysing Discourse, Textual Analysis for Social Research*. London: Routledge.
- Ittner, C. D., & Larcker, D. F. 2008. Extending the boundaries: nonfinancial performance measures. In C. S. Chapman, A. G. Hopwood, & M. D. Shields (Eds.), *Handbooks of Management Accounting Research*, Vol. Volume 3: 1235-1251. Amsterdam: Elsevier.
- Kaplan, R. S. 1984. Yesterdays accounting undermines production. *Harvard Business Review*, 62(4): 95-101.
- Kaplan, R. S. 1998. Innovation action research: creating new management theory and practice. *Journal of Management Accounting Research*, 10(1): 89-118.
- Kaplan, R. S. 2011. Accounting scholarship that advances professional knowledge and practice. *The Accounting Review*, 86(2): 367-383.
- Kaplan, R. S., & Norton, D. P. 1992. The Balanced Scorecard - Measures that drive performance. *Harvard Business Review*, 70(1): 71-79.
- Kaplan, R. S., & Norton, D. P. 1993. Putting the Balanced Scorecard to work. *The Performance Measurement, Management and Appraisal Sourcebook*: 66-79.
- Kaplan, R. S., & Norton, D. P. 1996a. *The Balanced Scorecard: Translating Strategy into Action*. Boston, MA: Harvard Business School Press.
- Kaplan, R. S., & Norton, D. P. 1996b. Linking the Balanced Scorecard to strategy. *California Management Review*, 39(1): 53-79.
- Kaplan, R. S., & Norton, D. P. 2000. *The Strategy-focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*. Boston, MA: Harvard Business Press.
- Kaplan, R. S., & Norton, D. P. 2001a. Transforming the Balanced Scorecard from performance measurement to strategic management: part I. *Accounting Horizons*, 15(1): 87-104.
- Kaplan, R. S., & Norton, D. P. 2001b. Transforming the Balanced Scorecard from performance measurement to strategic management: part II. *Accounting Horizons*, 15(2): 147-160.
- Kaplan, R. S., & Norton, D. P. 2004. How strategy maps frame an organization's objectives. *Financial Executive*, 20(2): 40-45.
- Kaplan, R. S., Shank, J. K., Horngren, C. T., Boer, G., Ferrara, W. L., & Robinson, M. A. 1990. Contribution margin analysis: no longer relevant/strategic cost management: the new paradigm. *Journal of management accounting research*, 2(1): 1-32.
- Lueg, R., & Nørreklit, H. 2012. Performance measurement systems – Beyond generic strategic actions. In F. Mitchell, H. Nørreklit, & M. Jakobsen (Eds.), *The Routledge Companion to Cost Management*: 342-359. New York, NY: Routledge.
- Malina, M. A., Nørreklit, H., & Selto, F. H. 2007. Relations among measures, climate of control, and performance measurement models. *Contemporary Accounting Research*, 24(3): 935-982.
- Marr, B. 2011. Scored for life. *Financial Management*, 24(3): 30.
- Nielsen, L. B., & Nørreklit, H. 2010. *The outsourcing decision-making process: two extensions to the management accounting and strategy toolkit*. Paper presented at the 7th Conference on New Directions in Management Accounting, Brussels.
- Nørreklit, H. 2000. The balance on the Balanced Scorecard: a critical analysis of some of its assumptions. *Management Accounting Research*, 11(1): 65-88.
- Nørreklit, H. 2003. The Balanced Scorecard: what is the score? A rhetorical analysis of the Balanced Scorecard. *Accounting, Organizations and Society*, 28(6): 591-619.
- Nørreklit, H. 2011. The art of managing individuality. *Qualitative Research in Accounting & Management*, 8(3): 265-291.
- Nørreklit, H., & Falconer, M. 2007. The Balanced Scorecard. In T. Hopper, D. Northcott, & R. W. Scapens (Eds.), *Issues in Management Accounting (3rd ed.)*: 175-198. London: Prentice-Hall/Financial Times.
- Nørreklit, H., & Kaarbøe, K. 2013. A new way of being a controller-from bellboy to actor. *Managing in Dynamic Business Environments: Between Control and Autonomy*: 114.
- Nørreklit, H., Nørreklit, L., & Mitchell, F. 2007. Theoretical conditions for validity in accounting performance measurement. In A. Neely (Ed.), *Business Performance Measurement: Unifying Theory and Integrating Practice*: 179-217. New York, NY: Cambridge University Press.

- Nørreklit, H., Nørreklit, L., & Mitchell, F. 2010. Towards a paradigmatic foundation for accounting practice. *Accounting, Auditing & Accountability Journal*, 23(6): 733-758.
- Nørreklit, L., Nørreklit, H., & Israelsen, P. 2006. The validity of management control topoi: towards constructivist pragmatism. *Management Accounting Research*, 17(1): 42-71.
- Popper, K. R. 1965. *Conjectures and Refutations*. New York, NY: Harper & Row.
- Rigby, D. 2005. *Executive Guide-Management Tools*. Boston, MA: Bain and Company.
- Rigby, D. 2007. *Executive Guide-Management Tools*. Boston, MA: Bain and Company.
- Silk, S. 1998. Automating the balanced scorecard. *Management Accounting*, 79(1): 38-44.